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UNCLAS SECTION 01 OF 02 THE HAGUE 000154

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SUBJECT: NETHERLANDS - CABLE 2 OF 2: DUTCH POSITIONS IN ADVANCE OF  
G20 SUMMIT

Ref: (A) STATE 17502, (B) THE HAGUE 116, (C) THE HAGUE 62, (D) THE  
HAGUE 60, (E) 08 THE HAGUE 1018, (F) 08 THE HAGUE 981, (G) 08 THE  
HAGUE 910, (H) 08 THE HAGUE 901, (I) 08 THE HAGUE 840, (J) 08 THE  
HAGUE 771

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¶1. This is the second of two cables providing post's answers to  
questions in Ref A about Dutch plans for the G20 summit and  
responses to the financial crisis.

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III. THE BROADER ECONOMIC CRISIS  
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¶2. Response H: The global economic downturn is significantly  
affecting the domestic real economy. The Port of Rotterdam -  
Europe's largest - has seen a 15 percent decline in port traffic  
since October, with more expected. Industrial production has  
declined an average Q 25 percent since November, and even  
agricultural exports (which normally are well insulated from  
economic shocks) have shrunk between 5 and 10 percent since January  
¶1. Several Dutch industry giants have announced layoffs at their  
offices around the world, including 7,000 at ING and 6,000 at Royal  
Philips Electronics. Tata Steel's Corus Plc, Europe's second  
largest steel company, has taken advantage of the GONL's offer to  
allow shorter working hours for 4,600 of its employees, and it may  
still lay off 1,000 workers. See paragraph 3 in Part One of this  
cable series (septel) for details on GONL efforts to stimulate the  
economy.

¶3. Response I: The open Dutch economy is heavily dependent on  
international trade; Dutch exports are expected to decline almost 12  
percent in 2009 as a result of the global slowdown. The GONL has  
extended the current export credit insurance facility to include  
destination countries where no commercial export credit insurance is  
available, and it is looking at additional measures to boost  
exports.

¶4. Response J: Despite the crisis, the GONL and Dutch public  
maintain a fierce loyalty to free trade and investment. They  
strongly oppose protectionist measures at home, in the EU, and  
globally. The GONL joined the European Commission and other Member  
States in fervently objecting to the original "Buy American"  
provisions of the U.S. Recovery and Reinvestment Act. Even though  
the final version of the bill ensures that EU companies can compete  
for publicly funded U.S. infrastructure projects under the WTO's

Government Procurement Agreement, the GONL argue that the provision still sends a dangerous protectionist signal to the rest of the world. In keeping with its free trade philosophy, the GONL has not implemented domestic measures that would impose trade restrictions or discriminate against foreign investors.

15. Response K: Due to the small physical size of the Netherlands and the international nature of virtually all of its major businesses, the GONL's financial and economic stimulus measures do not show local geographic preferences.

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IV. OUTLOOK AND POLITICAL RAMIFICATIONS  
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16. Response L: Following is the near-term outlook for the Netherlands' key economic indicators, according to the Netherlands Bureau for Economic Policy and Analysis:

- GDP: 2 percent growth in 2008; expected shrinkage of 3.5 percent in 2009, followed by less severe shrinkage of 0.25 percent in 2010. Qin 2009, followed by less severe shrinkage of 0.25 percent in 2010.
- Unemployment: 2009 will see an end to a period of 3 years of decreasing unemployment. The 2008 level of 3.9 percent will rise to 5.5 percent in 2009 and 8.75 percent in 2010.
- Inflation: It's expected to fall sharply, from 2.5 percent in 2008 to 1 percent in 2009 and 2010. This is due mainly to lower prices of oil and raw materials.
- Trade: The cornerstone of the Dutch economy will be hit hard in 2009 but will recover slightly in 2010. Exports of goods (excluding energy) grew 1.4 percent in 2008, but they will shrink by 11.75 percent in 2009. They are expected to start to recover with 1.5

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percent growth in 2010.

- Government Budget: The GONL enjoyed a budget surplus of 1.3 percent of GDP in 2008. Before the full onset of the financial crisis in September 2008, the government had predicted a 2009 surplus of 1.2 percent. That has now transformed into a projected budget deficit of 3 percent in 2009 and 5.5 percent in 2010. Primary contributors are substantially lower tax revenue, higher expenditure on unemployment benefits, and declining natural gas profits.
- Stock Market: The leading Dutch indicator, the AEX, has lost almost 54 percent of its value since March 2008, including 17 percent since January 1, 2009.

17. Response M: The Dutch parliament, media, and public continue to hotly debate what steps should be taken to address the economic downturn. While Prime Minister Balkenende and his cabinet enjoyed widespread public support in late 2008 for their quick intervention in the financial sector, criticism of the GONL's cautious, incremental approach to the crisis has increased. That said, the general consensus is that the Prime Minister's coalition government is unlikely to collapse. His cabinet continues to consult closely with parliament, labor, and industry on the way forward.

18. Response N: In general, the GONL has not become more critical of the United States in the wake of the financial crisis. Finance Minister Wouter Bos and other public figures have pointed to failures in U.S. - and Dutch - banking supervision and greedy corporate executives as key reasons for the crisis. The GONL also was highly critical of the original "Buy American" provisions in the U.S. Recovery and Reinvestment Act. Nonetheless, the GONL, as well as the Dutch media and public, continues to view the U.S. as a close friend and ally. It is unlikely that the crisis will negatively affect our long-term relationship.

19. Response O: The GONL maintains a robust international security posture. Post has no indication that the financial crisis will

significantly affect Dutch security or defense policy. One exception, however, could be the Joint Strike Fighter (JSF) program. The Netherlands is one of nine partner countries participating in the development of the F-35 Joint Strike Fighter to replace its aging F-16 fleet. Like all partners, the Netherlands is very concerned about the JSF program's potentially increasing cost. Although the GONL remains committed to supporting JSF, it faces tough budget decisions as a result of the financial crisis. Although unlikely, GONL financial commitment to JSF could waiver.

¶10. Response P: The GONL maintains a standing policy of contributing 0.8 percent of GDP to foreign assistance programs. Some in parliament are calling for revisions to this policy which would decrease GONL contributions to development goals. The Prime Minister and his cabinet have cautioned against such action. At the same time, because Dutch GDP is expected to shrink 3.5 percent in 2009, the real euro amount of Dutch assistance will decrease. Compared to 4.75 billion euro in foreign assistance in 2008, MFA officials estimate that the 2009 figure will drop to 4.58 billion.

¶11. Response Q: As with development assistance, the GONL remains firmly committed to its international peacekeeping and NATO commitments. In 2007, the Dutch extended their 1,700-troop commitment in the most dangerous region of Afghanistan until 2010, despite strong public skepticism. In 2009, the GONL will consider possible follow-on commitments in Afghanistan after 2010. While budget constraints will influence GONL thinking on whether to maintain "boots on the ground" in Afghanistan, it will be political - not financial - considerations that ultimately will determine the GONL's decision.

¶12. Embassy The Hague's point of contact for financial and G20 issues is Economic Unit Chief Shawn Gray, grays@state.gov, telephone (31)(70) 310-2340.

GALLAGHER